

G-008/CI-88-460SOLICITING COMMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Accounting for and
Recovery of Conservation Expenses by
Minnegasco, Inc.

ISSUE DATE: April 13, 1989

DOCKET NO. G-008/CI-88-460

ORDER SOLICITING COMMENTS

PROCEDURAL HISTORY

On October 5, 1987, the Minnesota Public Utilities Commission ordered Minnegasco, Inc. (Minnegasco or the Company) to file a cost recovery proposal for its Conservation Improvement Program (CIP). In the Matter of the Implementation of an Energy Conservation Improvement Program, Docket No. G-008/M-87-231.

Minnegasco did so on January 5, 1988.

On August 4, 1988, the Commission staff sent information requests to Minnegasco) relating to expenditures and cost recovery for the RCS, PUCIP, and CIP Programs. The Company responded to those requests on September 7, 1988 and sent copies of its response to the Department of Public Service (Department or DPS) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG). Comments and responsive comments followed.

The Commission met on March 14, 1989 to consider this matter.

FINDINGS AND CONCLUSIONS

The Commission must decide what is an appropriate cost recovery method for Minnegasco's CIP. To do so, the Commission will examine cost recovery methods that have been ordered for three types of conservation programs (PUCIP, CIP, and RCS) and their relationship to each other.

Cost recovery is a major issue in conservation programs. The Commission encourages conservation investments. However, under cost of service ratemaking, utilities are unable to recover increased

conservation expenditures between rate cases when those expenditures are treated as normal test year expenses. To resolve the tension between investment and recovery, the Commission has allowed utilities to track conservation investments.

A tracker account handles conservation expenses differently from other test year expenses. For the most part, companies with conservation tracker accounts are allowed dollar-for-dollar recovery of reasonable expenses incurred in approved conservation programs. The Commission annually reviews utilities' conservation programs and reviews the reasonableness and prudence of a utility's conservation expenses in general rate cases. Conservation expenses included in the test year income statement determine the conservation cost recovery charge (CCRC) which is the amount of conservation expenses a company is allowed to collect in its rates. Each year, revenues collected through the CCRC and from charges to customers for conservation services such as audits are offset against actual expenditures. The amount which is over- or undercollected becomes the deferred balance to be carried forward to the following year. When the company files its next general rate case, all conservation expenditures occurring since the last zeroing of the tracker account are examined. The debit or credit balance is adjusted for those amounts which the Commission determines have been inappropriately included in the tracker. The company eliminates the over- or underrecovery either by collecting the deficit through rates or refunding any overcollections to ratepayers.

The Company had general rate cases in 1980 (Docket No. G-008/GR-80-630) and 1982 (Docket No. G-008/GR-82-249). In the 1980 case, the Commission rejected Minnegasco's proposal to track RCS expenditures and ordered the Company to expense these costs. This cost recovery method was continued in the 1982 rate case. In these rate cases, the Commission determined a test-year level of RCS expenses and recognized it in calculating final rates.

In Minnegasco's 1982 rate case, the Commission approved the continuation of the PUCIP tracking process that had been followed since the program began. PUCIP ended in 1984; CIP followed PUCIP. However in its September 11, 1986 Order in In the Matter of the Implementation of an Energy Conservation Improvement Program, Docket No. G-008/M-86-243, the Commission found that the Company had not provided the Commission with a formal proposal for a CIP cost recovery method and ordered that the CIP costs be expensed in the year they occurred until the Company filed a CIP cost recovery proposal. Again in Docket No. G-008/M-87-231, the Commission noted that Minnegasco had not yet filed its CIP cost recovery proposal and directed the Company to do so within 90 days of the October 5, 1987 Order. The Minnegasco filing was received on January 5, 1988.

In its January 5 1988 filing, the Company claimed that it had a cumulative under-recovery of expenditures in the PUCIP and CIP programs of more than \$1 million as of the end of June, 1988. The Company's responses to the Commission staff's information requests indicate that Minnegasco over-recovered RCS expenditures through rates by approximately \$7.8 million.

The Company's conservation cost tracker proposal views CIP as being a continuation and expansion of PUCIP and considers that the cost recovery tracking system approved for PUCIP continues to apply to the CIP program. The Company believes that any under-recovery of PUCIP/CIP should be recoverable in a future rate case. On the other hand, Minnegasco maintains that any over-

recovery of RCS expenditures should be ignored since RCS costs have been expensed as ordered by the Commission and may have been offset by other expense increases.

The RUD-OAG stated that over time an increasing percentage of the Company's contract with the Minneapolis Energy Office was allocated to PUCIP/CIP for which Minnegasco has a tracker and a declining percentage was allocated to RCS for which there is no tracker. Also, the RUD-OAG noted the large negative net revenue balance for PUCIP/CIP, which has a tracker, and the large positive net revenue balance for the RCS program for which there is no tracking account.

The Department recommended that the Commission approve the Company's cost recovery proposal. The DPS views the recovery of Minnegasco's RCS and CIP expenses as two different issues. The Department asked that the Commission clarify the status of Minnegasco's tracker account to determine whether the Company has had Commission approval to track CIP expenses, but take no action on the Company's RCS account.

The Commission is concerned that the Company's current rates which were approved in a 1982 general rate case are recovering, among other costs, test-year expenditures for the RCS and PUCIP programs. Further the Commission is concerned about the appropriate accounting of RCS costs. The Company may have diverted RCS audits from the RCS program which has no tracker to CIP projects for which the Company believes there is a tracker. The Company's current rate structure gives the Company an incentive to do this. When this happens, cost recovery continues in rates for the RCS program, while the expenditures are transferred to CIP. The Commission believes that part of the under-recovery in PUCIP/CIP has resulted from audits very similar to RCS audits which were recorded as CIP audits. The Commission concludes that there has been a substantial over-recovery of conservation expenditures since 1982. The Commission does not believe that conservation programs were intended to generate profit for utilities and is committed to protecting ratepayers from such a result.

The Commission needs more information to decide whether to approve, disapprove or modify the Company's CIP cost recovery proposal. The Commission will allow interested parties 45 days to file comments addressing:

1. how CIP, PUCIP, and RCS expenditures relate to each other;
2. whether the Company's PUCIP tracking system, or some variation of it, should be approved for CIP expenses; and
3. methods of avoiding future buildups of the tracker balance if a cost recovery tracking system is approved.

The Commission urges all interested parties to meet and narrow their areas of disagreement.

ORDER

1. Interested parties shall have 45 days from the date of this Order to file comments with the Commission on the issues described above. All parties submitting comments shall provide a copy of their comments to other persons upon request.
2. The Company shall respond to information requests within 10 days of the service date of the request.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)